

Message Text

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TO AMEMBASSY JAKARTA IMMEDIATE

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SUBJECT: ADDITIONAL GUIDANCE FOR HENOCH ADDRESS BEFORE
INDONESIAN PETROLEUM ASSN.

REF: JAKARTA 6988

A. THE STRATEGIC PETROLEUM RESERVE PLAN

1. THE ENERGY POLICY AND CONSERVATION ACT (EPCA), ENACTED
IN DECEMBER 1975, PROVIDED THE LEGISLATIVE AUTHORIZATION
FOR THE STRATEGIC PETROLEUM RESERVE. THE RESERVE IS TO
PROVIDE FOR THE STORAGE OF UP TO 1 BILLION BARRELS OF
PETROLEUM IN ORDER TO DIMINISH U.S. VULNERABILITY TO THE
EFFECTS OF A SEVERE PETROLEUM SUPPLY INTERRUPTION.

2. THE MAJOR FEATURES OF THE SPR PLAN, AS AMENDED, ARE
AS FOLLOWS:

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-- THE RESERVE WILL CONTAIN 500 MMB OF CRUDE OIL BY THE
END OF 1980 AND 1 BILLION MMB BY 1985.

-- ONLY THREE OR FOUR TYPES OF CRUDE OIL WOULD BE STORED
IN THE RESERVE. ABOUT 60 PERCENT OF THE CRUDE WOULD BE
OF AN INTERMEDIATE GRAVITY, MODERATELY HIGH-SULPHUR TYPE,

AND THE REMAINDER WOULD CONSIST OF UP TO THREE TYPES OF LOW-SULFUR CRUDE. (FYI: INDONESIAN CRUDES ARE NOT PRESENTLY ON THE LIST OF ELIGIBLE CRUDES.)

-- THE CRUDE OIL WOULD BE ACQUIRED THROUGH THE NORMAL FEDERAL PROCUREMENT PROCEDURES.

-- THE BULK OF THE CRUDE OIL WOULD BE STORED IN A FEW LARGE UNDERGROUND SITES LOCATED PRIMARILY IN THE U.S. GULF COAST AREA WHERE THEY WOULD BE READILY ACCESSIBLE TO TANKERS OR MAJOR CRUDE OIL PIPELINES, OR BOTH, TO ASSURE TIMELY FILL AND WITHDRAWAL.

-- TRANSPORTATION OF THE RESERVE CRUDE OIL DURING A DRAWDOWN WOULD BE THE PRIMARY RESPONSIBILITY OF THE PETROLEUM INDUSTRY.

B. U.S. LNG POLICY

1. FOUR PROJECTS TALLING ABOUT 0.8 TCF/YEAR OF IMPORTS HAVE ALREADY BEEN APPROVED. TWO ADDITIONAL PROJECTS COMPRISING AN ADDITIONAL 0.8 TCF/YEAR, ARE PENDING BEFORE THE DEPARTMENT OF ENERGY.

2. THE NATIONAL ENERGY PLAN (NEP), AMONG OTHER THINGS, SET ASIDE THE PREVIOUS ADMINISTRATION'S POLICY ON LNG
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IMPORTS THAT PLACED AN ANNUAL VOLUMETRIC LIMIT ON IMPORTS OF LNG FROM ANY ONE COUNTRY AND STIPULATED THAT A NEW LNG POLICY WOULD BE DEVELOPED, PROVIDING GUIDELINES FOR ITS FORMULATION.

3. SUBSEQUENT TO THE ISSUANCE OF THE NEP, THE DEPARTMENT OF ENERGY INITIATED A POLICY REVIEW OF THE NEED OR DESIRABILITY FOR FURTHER LNG IMPORTS. AS PART OF THIS REVIEW, PUBLIC HEARINGS WERE HELD SOLICITING THE PUBLIC'S VIEWS ON NUMEROUS ISSUES RELATIVE TO AN LNG IMPORT POLICY. DURING THESE HEARINGS OVER 40 SPEAKERS APPEARED, AND WRITTEN COMMENTS WERE SUBMITTED BY 90 ADDITIONAL RESPONDENTS.

4. THIS POLICY REVIEW HAS BEEN COMPLETED AND THE CONCLUSIONS AND RECOMMENDATIONS ESTABLISHING AN LNG IMPORT POLICY ARE BEING DEVELOPED.

5. LNG PROJECTS APPROVED: FROM ALGERIA DISTRIGAS I (1971) AND IV (1978) 43 BILLION CUBIC FEET/YEAR (BCF TO MASS; EL PASO I (1978) 388 BCF TO MD. AND GA.; TRUNKLINE (1981) 153 BCF TO LA.; AND FROM INDONESIA, PACIFIC

LIGHT (1981) 197 BCF (APP OVED CONDITIONALLY PENDING

APPROVAL OF ESCALATOR PROVISION) TO CA. LNG PROJECTS
PENDING BEFORE THE ECONOMIC REGULATORY ADMINISTRATION,
FROM ALGERIA: EL PASO II (1983 365 BCF TO TX., TENNECO
ATLANTIC (1985) 416 BCF TO U.S. VIA CANADA.

C. WEST COAST OIL SUPPLY DEVELOPMENTS

1. WEST COAST AND SPECIFICALLY THE CALIFORNIA ENERGY
MARKETS WILL CONTINUE TO DEPEND ON LOW SULFUR, HIGH-
QUALITY SWEET CRUDE, THE KIND OF CRUDE THAT IS EXPORTED
FROM INDONESIA.

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2. THE LIGHT, SWEET INDONESIAN CRUDE IS NEEDED TO
PRODUCE LOW SULFUR PRODUCTS WHICH CAN MEET CALIFORNIA'S
STRINGENT 1.5 PERCENT SULFUR REQUIREMENT (LOS ANGELES IS
1.0), WITH INCREASING QUANTITIES OF HIGH SULFUR, HEAVY
GRAVITY CRUDES MOVING INTO THE WEST COAST MARKET FROM
ALASKA'S NORTH SLOPE IT IS LIKELY THAT REFINERY CONFIGURA-
TION ULTIMATELY WILL BE MODIFIED TO SOME DEGREE TO HANDLE
A PART OF SUCH SUPPLIES. HOWEVER, THE DEMAND FOR LOW
SULFUR FUELS, INDONESIAN CRUDE AS WELL AS NATURAL GAS
IS LIKELY TO CONTINUE.

3. GIVEN THE NATURE OF THE CALIFORNIA MARKET WHICH HAS
A HIGHER THAN AVERAGE GASOLINE DEMAND, AN UNCERTAIN
STATE POLICY TOWARDS THE GROWTH OF NUCLEAR POWER, AND THE
NEED FOR CLEAN FUELS, IT WILL BE APPARENT THAT WE MUST
FIND ALTERNATIVE MARKETS FOR ALASKA OIL WITHIN THE UNITED
STATES AND CONTINUE TO IMPORT CLEAN FUELS TO THE WEST
COAST.

D. HENOCHE MAY ALSO WISH TO DRAW UPON ADDRESS BY UNDER
SECRETARY COOPER BEFORE THE BUSINESS FORECASTING
CONFERENCE AT UCLA CONTAINED IN DOS BULLETIN OF FEB. 1978.
VANCE

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